NOVEMBER 2020

HOUSING MARKET DIGEST

CANADA

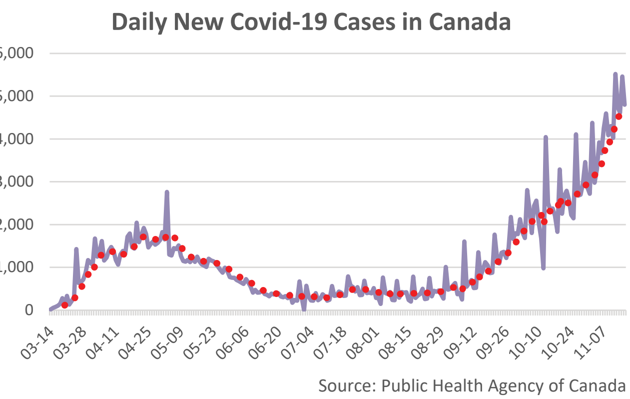
MORTGAGE PROFESSIONALS CANADA

Now What?

Economic recovery is continuing, although the pace of recovery is slowing. Meanwhile, the daily rate of new COVID-19 cases is more than 2.5 times what was seen at the peak last spring. Will there be a need for more-widespread lockdowns that once again disrupt the economy? This chart shows data up to November 16 (the dotted line is the 7-day moving average). Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

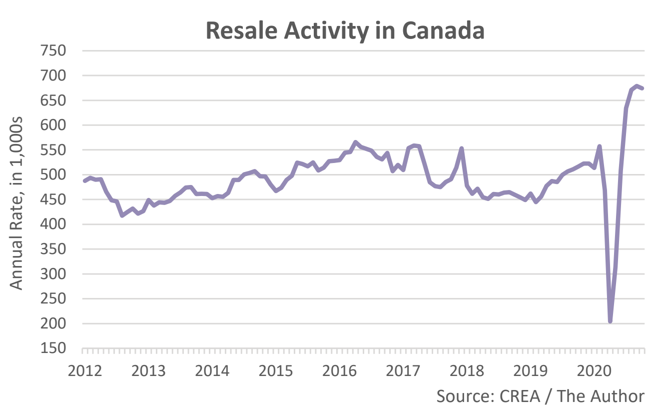
Canada is not alone in seeing a frightening resurgence. The rate of new infections in Canada is about one-third the rate seen in the US (and in western Europe).

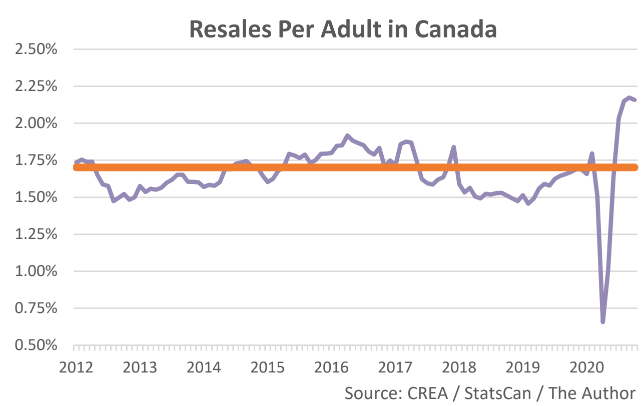
France and Germany have now gone into mandatory lockdowns, and the emerging data suggests that this is working, as their curves might now be turning down.



Resale Market

Resale activity remains very strong. The annualized sales rate for October (674,000) was similar to the two prior months. For the period from April to October, the average sales rate was 526,000. Taking sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate is about 530,000. On this basis, the sales rate for October was 27% above average. But, for the period April to October, sales were very close to the long-term average (just 1% lower). So, at this point, the shortfall that occurred during the spring has been completely regained. It is possible that sales will remain above average for some time, because COVID-19 has resulted in much greater interest in changing living arrangements, and a "sorting process" could cause sales to remain elevated for some time.





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Resale Market (Continued)

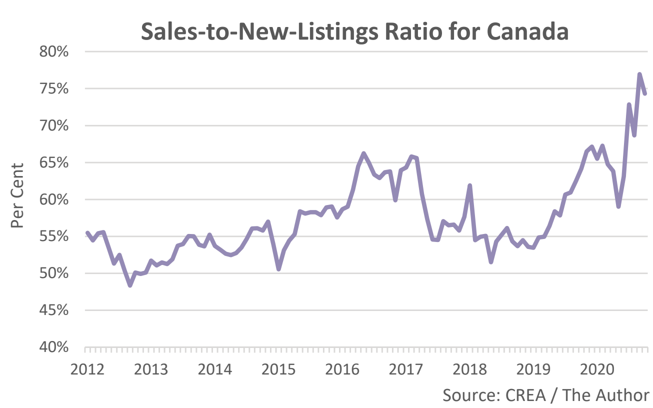
Increased interest in home buying is discussed in my reports for Mortgage Professionals Canada, which can be found here: https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports

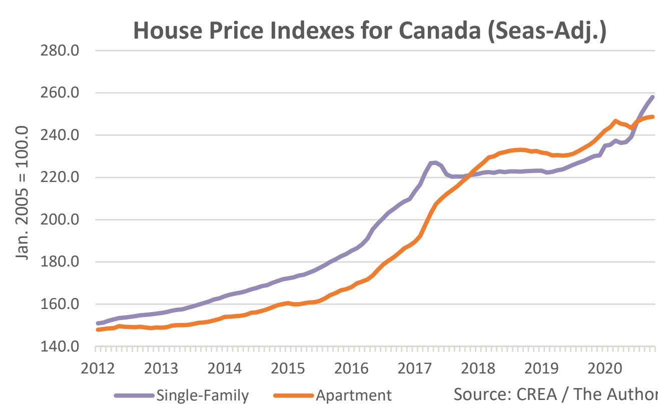
The next chart, looking at the data in terms of sales per adult, provides a slightly different view of the wild swings that have occurred this year. More new listings are flowing into housing markets, but this has not kept up with sales. The result is that the national sales-to-new-listings ratio ("SNLR") is extremely high, at 75% in October (and an average of 68% since April). The SNLR is far above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

In consequence, prices are increasing very rapidly. CREA's house price index for Canada has increased by 6.9% during the past five months (expressed as an annualized rate, this is 17%). But, the sorting process involves some movement away from apartments, towards low-rise homes. The price index for single-detached homes has increased by 9% during the past five months but for apartments the increase is 1.6%.

Mortgage deferrals are now expiring. The Canadian Bankers Association has reported that Canada's banks have helped more than 795,000 homeowners with mortgage flexibility. As of September 30, 498,000 of those clients have resumed payments. This implies that almost 300,000 mortgages were still in deferral as of September 30. The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

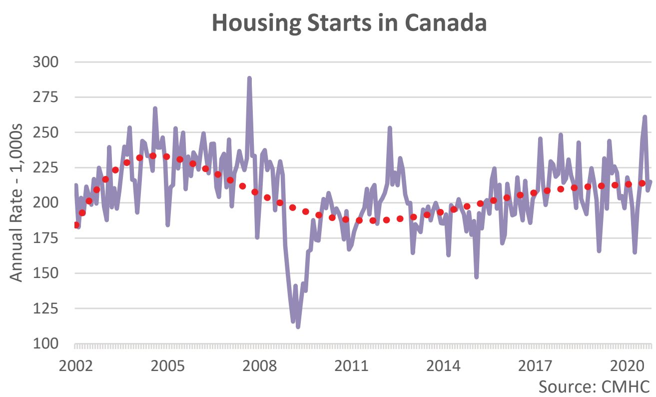
There were no doubt more payment resumptions during October and November. At this time, there is a relatively large (but unknown) number of mortgages still in deferral. It remains to be seen how these situations will be resolved. How many of these homes will become available, through voluntary or involuntary sales? Will this negatively affect pricing? The CMHC forecast that Canadian house prices will fall by 9-18% by next spring assumes that there will be a very substantial disruption as a result of the ending of mortgage deferrals. I am still reluctant to publish any forecasts, because it is impossible to make assumptions about what will happen to key factors. That said, I continue to see the CMHC forecast as "a low probability event".

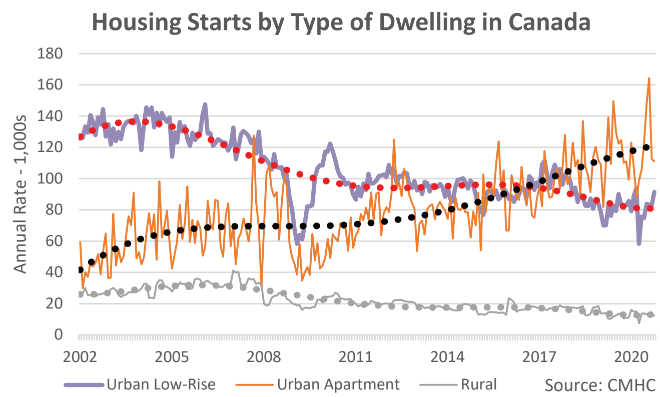




Housing Starts

Housing starts remain strong, with the rate for October at 214,900. Looking forward (but not producing any explicit forecasts) I see a possibility that the sorting process could cause low-rise activity to expand (but from extremely inadequate levels). Likewise, activity should fall for apartments, but that will take some time to occur, because apartment starts are still being driven by decisions made earlier (especially by pre-construction sales of new condominium apartments).

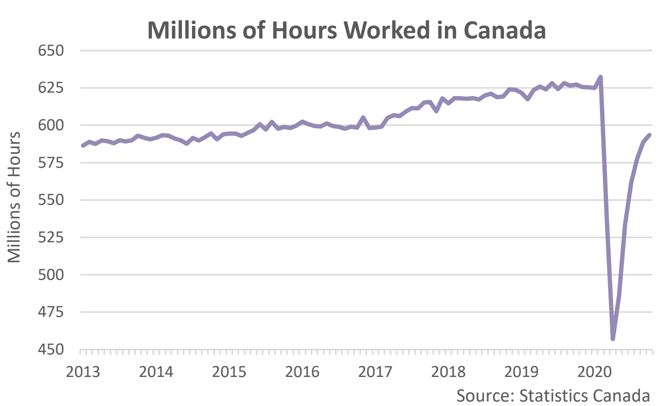


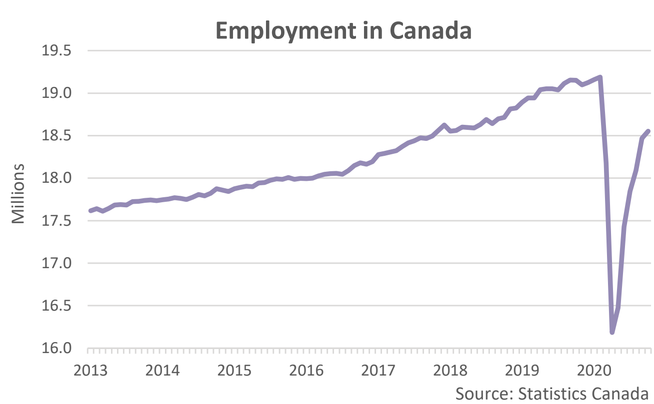


Employment Trends

Employment continues to recover, with the sixth consecutive large rise in October. But, the monthly gain (84,000) was smaller than in the earlier months. Statistics Canada estimates that as of October, total employment is 636,000 (or 3.3%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The next chart below shows that as of October, hours worked in Canada were 6.1% lower than in February. Repeating a prior comment, the worst impacts have been seen in low wage service industries and for younger age groups.





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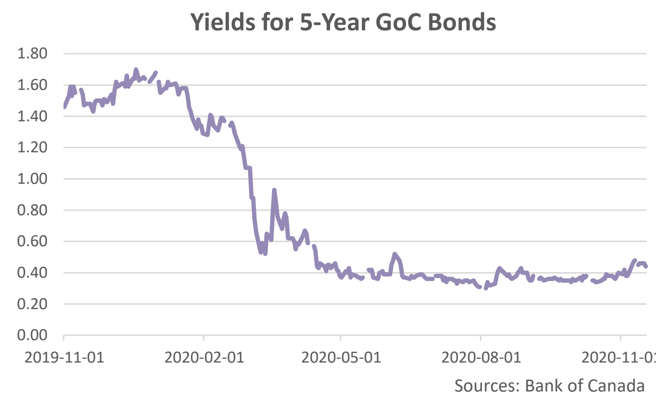
Employment Trends (Continued)

This implies that the damage within the housing market will be greater for the rental sector than for home buying. During October, Canada Mortgage and Housing Corporation conducted its annual survey of rental markets across Canada, but CMHC won't release the results until January. This would be a really good time for CMHC to do the survey on a quarterly (rather than annual) basis, and to accelerate the release of the data.

Interest Rates

Very encouraging reports about COVID-19 vaccines have generated a rally in financial markets, which includes small rises in bond yields (the yield for 5-year Government of Canada bonds has increased to about 0.45% from about 0.35% previously).



Mortgage interest rates have also increased fractionally in recent days. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.85% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.4 points, which is below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.7%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.

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